Grafton Group plc

Half Year Results

For the six months ended 30 June 2015

GRAFTON GROUP PLC

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

Grafton Group plc ("the Group"), the builders merchanting and DIY Group with operations in the UK, Ireland and Belgium, announces its half year results for the six months ended 30 June 2015.

Financial Highlights

- Revenue up 7% to £1.08 billion (10% in constant currency)
- Group operating profit up 21% to £61.2 million and operating profit margin increased to 5.6% from 5.0%
- Property profit contribution increased to £6.1 million from £1.6 million and Group operating profit margin before property profit increased to 5.1% from 4.8%
- Profit before taxation up 26% to £57.9 million and basic earnings per share up 31% to 20.2p
- 20% increase in dividend reflects strong results and financial position
- Strong cash generation from operations of £73.2 million (2014: £88.1 million)
- Investment of £42.9 million on acquisition and capital expenditure to support future growth
- Net debt declined to a near two decade low of £51.1 million from £75.3 million at 31 December 2014 representing gearing of 5%

Operating Highlights

- UK merchanting business delivered a good performance as positive economic backdrop supported increased activity in the residential RMI and new build markets
- Strong performance by Selco
- Significant contribution from UK acquisitions and new branches
- Continued progress in Irish businesses with strong profit growth in merchanting business as economy rebounds

	30 June 2015 £'m	30 June 2014 £'m	% change
Revenue	**1,084**	1,015	+7%
Operating profit	**61.2**	50.6	+21%
Profit before tax	**57.9**	45.9	+26%
Profit after tax	**47.0**	35.8	+31%
Earnings per share – basic	**20.2p**	15.4p	+31%
Dividend	**4.50p**	3.75p	+20%
Net debt	**51.1**	101.1	-49%
Total equity	**938.9**	881.9	+6%
Return on capital employed	**12.4%**	10.2%	+2.2%pts

Gavin Slark, Chief Executive Officer commented:

"The first half of 2015 has seen the Group deliver a strong performance across key financial metrics as it continues to execute its strategic plans. The overall outlook for Grafton is positive and despite current challenges the Group is well placed to make further progress in the second half towards delivery of its medium term targets of a 7 per cent operating margin and 15 per cent return on capital employed."

Webcast details

A results presentation hosted by Gavin Slark and David Arnold for analysts and investors will be held today 27 August 2015 at 9.30 am (BST).
The web address to access the live webcast is as follows;
www.graftonplc.com/webcast/

Replay
The webcast will be available to watch later in the day.

The results presentation can be viewed/downloaded at http://www.graftonplc.com

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Cautionary Statement
Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward looking statements. They appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Half Year Results

For the Six Months Ended 30 June 2015

Group Results

The Group continued to make good progress during the period and delivered an increase in revenue, profits and earnings per share.

The merchanting business in the UK, which contributed three quarters of Group revenue, delivered a solid increase in revenue and operating profit. The broadly positive economic and housing market backdrop supported growth in residential RMI and new build activity. Selco Builders Warehouse increased revenue and profit while the performance of the traditional merchanting business was impacted by margin pressure in competitive markets and investment in strategic growth opportunities.

The merchanting business in Ireland reported a significant increase in revenue and operating profit as the pace of growth in the construction market accelerated and extended into the commercial property and civil engineering sectors. Increased spending on residential RMI projects was the primary driver of growth. House building activity increased from a low base although the rate of recovery remains weak despite a significant shortfall in supply.

Positive trends in the labour market and increased earnings saw the start of a recovery in consumer spending in Ireland which began to slowly extend into the DIY market. The Irish Retailing business experienced modest growth in revenue and improved profitability from a low base.

The mortar manufacturing business in the UK performed strongly and increased profitability as growth in house building was supported by strong demand for new homes and the availability of mortgage finance at historically low interest rates.

The Group generated a cash flow of £73.2 million (2014: £88.1 million) from operations. This was used to fund a significant programme of acquisitions and capital expenditure, to increase dividends and reduce net debt.

Dividend

The interim dividend approved has been increased by 20 per cent to 4.50p from 3.75p. This increase is in line with the Board’s progressive dividend policy which is based on increasing dividends as earnings recover and reflects the strong half year performance and sound financial position of the Group.

Outlook

The outlook for the UK economy is positive with the recovery expected to be sustained and the current pace of expansion forecast to continue over the remainder of the year. The marked increase in wages due to a tighter labour market at a time when the near term outlook for inflation is muted is expected to support growth in household spending. The prospects for the residential RMI and new build markets remain positive supported by good underlying demand, historically low mortgage rates and renewed strength in the housing market signalled by recent growth in house prices, mortgage approvals and housing transactions. Against a generally positive economic background, the UK merchanting business is expected to see like-for-like growth in competitive markets. Contributions from new branches and acquisitions and benefits from internal margin management and cost initiatives should also enable the business make further progress in the second half.

In Ireland, the recovery is now well established with the economy back on a strong growth path and leading indicators pointing to a continuation of this trend. Consumer spending and investment are expected to be the key drivers of growth and to provide a favourable backdrop for the Group's businesses. Historically low interest rates and growth in house prices and housing transactions is conducive to continued growth in residential RMI activity. The recovery in housebuilding is expected to gradually gather pace and the outlook is also positive for non-residential construction due to the good pipeline of projects at the planning stage or in the early stages of construction. Increased employment and disposable income should sustain growth in consumer spending which is gradually extending into the DIY market.

Average daily like-for-like revenue for the period from 1 July to 23 August 2015 increased by 3.7 per cent in the UK merchanting business and by 6.7 per cent in the merchanting business in Ireland. Like-for-like revenue growth was 5.7 per cent in the Retailing business in Ireland. Average daily like-for-like Group revenue increased by 4.3 per cent in the same period.

The overall outlook for the Group is positive and further progress is expected to be made in the second half towards the delivery of its medium term targets of a 7 per cent operating margin and 15 per cent return on capital employed.

Operating Review

Merchanting Segment (91% of Group Revenue)

Group merchanting revenue increased by 8.0 per cent to £985.2 million (2014: £912.7 million). Operating profit before property profit was up by 10.7 per cent to £55.2 million (2014: £49.9 million) and the operating profit margin before property profit increased by 10bps to 5.6 per cent.

UK Merchanting revenue increased by 9.6 per cent to £816.7 million (2014: £745.0 million) and operating profit before property profit grew by 8.7 per cent to £47.4 million (2014: £43.6 million). The UK Merchanting operating profit margin before property profit was unchanged at 5.8 per cent.

Growth of 4.3 per cent in average daily like-for-like revenues was principally due to increased activity in the residential RMI and new build markets. Price inflation was estimated at 1.0 to 1.5 per cent and like-for-like merchanting volumes increased by circa 3.0 per cent. New branches, implants, acquisitions and branch consolidations contributed revenue growth of 5.3 per cent.

The overall gross margin was unchanged as favourable mix changes relating to Selco and acquisitions were offset by competitive pricing pressure principally in Plumbase.

The traditional merchanting business had a mixed half year as the positive impact of growth in like-for-like revenue was more than offset by a decline in the gross margin and increased costs in the ordinary course of business and from strategic development initiatives and upgrading legacy IT systems.

The economic backdrop was broadly positive in the half year as growth in household spending was supported by improved confidence and an increase in real incomes as inflation edged down to zero. Historically low mortgage interest rates sustained strong activity in the housing market.

Selco Builders Warehouse had an excellent half year reporting a significant advance in revenue, operating profit and margin. Revenue growth was influenced by an increase in average transaction values and increased footfall. Growth was strongest in the Greater London Area with all other regions achieving very satisfactory growth rates. The Hire implants that were opened in the London branches last year performed to expectation and plans were advanced to introduce hire in the remaining branches by the year end. The branch in Isleworth that opened last year and the branch in Redhill that opened earlier this year performed ahead of expectations. Selco opened a branch in Coventry in July 2015 and three branch openings scheduled for later this year in New Southgate, Weybridge and

Southampton will increase the branch network to 40 including 24 in the Greater London Area. Selco Direct which offers customers an alternative channel to purchase 4,000 products online for next day delivery was recently launched.

Buildbase benefited from increased residential RMI spending and growth in housebuilding. Operating profit was marginally higher than the prior year with a small decline in the gross margin in a competitive market and additional costs related to strategic initiatives offsetting most of the benefit from revenue growth. Development initiatives continued to deliver an improved performance. Hirebase increased revenue and profit and continued to grow revenue in the 22 implants that were opened last year. Electricbase performed in line with plan and made a positive contribution to operating profit in the period. A further 15 implants were opened increasing the number of Electricbase implants now trading to 74. The ten merchanting branches acquired in the second half of last year performed strongly.

Plumbase encountered particularly challenging trading conditions during the half year. Revenue was flat in a weak market that continued to experience significant competitive price pressure leading to a lower gross margin and a decline in operating profit. The management team are responding to these demanding market conditions by focusing on measures to restore margins and control costs. A new regional branch management structure was implemented and a small number of underperforming branches were consolidated. The bathroom products distribution business continued to perform strongly.

Plumbase Industrial, a distributor of pipeline and mechanical engineering products, continued to develop its market position both organically and through acquisition. An entry position was established in the market during 2014 with the opening of nine branches following the successful opening of a pilot branch in 2013. These branches continued to build revenue and grow market share during the half year and market coverage was expanded with the opening of a branch in Maidstone. TG Lynes performed ahead of expectations since being acquired in early March 2015 and provided an established platform for building a presence in London and the South East. The acquisition in August 2015 of Parkes Services Limited, a single branch business, expanded geographic coverage into the Bristol market.

Macnaughton Blair reported a solid improvement in revenue and operating profit as economic conditions in Northern Ireland continued to show signs of recovery. Increased demand in the merchanting market was underpinned by growth in employment and increasing consumer confidence. Revenue growth was driven by increased residential RMI activity following the increase in housing transactions last year. The gradual recovery in housebuilding from a very low base was sustained and housing registrations, a forward indicator of activity, continued to increase. Operating leverage from volume growth in a stable market and tight control of costs resulted in an improved operating margin. The contract scaffolding business, a small non-core business, was sold to its senior management team in June 2015.

Irish Merchanting revenue increased by 2.3 per cent to £124.1 million (2014: £121.4 million). Revenue was up 14.8 per cent in constant currency. Operating profit increased by 34 per cent to £7.4 million (2014: £5.6 million) and by 50 per cent to €10.2 million (2014: €6.8 million) in constant currency. The operating margin increased by 140bps to 6.0 per cent.

The merchanting business in Ireland continued to outperform improving trends in its markets and increased average daily like-for-like revenue by 13.7 per cent. A disciplined pricing policy in a competitive market resulted in a broadly unchanged gross margin compared to the same period last year. Improved market conditions over the past two years have seen like-for-like revenue increase by 29 per cent resulting in some cost increases to support higher volumes and to invest in growth opportunities including a new branch in Cork City that opened at the end of 2014. These increases follow a cost reduction programme during the period from 2008 to 2013 in response to lower demand.

Activity in the housing market continued to improve with housing transactions up by one-third on the first half of last year. The increase in transactions from a very low base was weighted towards the first quarter as tighter rules on mortgage lending introduced by the Central Bank tempered the rate of growth in the second quarter. House price inflation slowed as anticipated due to the new rules on mortgage lending and reduced affordability following a period of rapid growth. House building activity continued to grow from an exceptionally low base and contributed to revenue growth. A significant increase in supply is required for a properly functioning market to develop in response to pent up demand and changes in demographics. Leading indicators of activity point to an acceleration in house building but it is expected to take a number of years to correct the current imbalance between supply and demand.

The strong performance of the Irish economy continued into 2015 and provided a favourable trading environment for the merchanting business as growth in disposable incomes and house prices stimulated spending on residential RMI projects which was the key driver of revenue growth. Non-residential construction, an important end use market for the business, experienced a pick-up in activity principally related to office construction and refurbishment projects where there is also a good pipeline of projects at the planning stage. Demand for civils products was also higher due to increased spending on roads and the water infrastructure.

Belgium

Revenue declined by 3.9 per cent to £44.4 million (2014: £46.3 million). Average daily like for like revenue increased by 1.1 per cent. Operating profit declined to £0.4 million from £0.7 million and to €0.5 million from €0.8 million in constant currency.

The performance of the business was influenced by challenging trading conditions in the residential new build and RMI markets resulting in a like-for-like outturn that was broadly similar to the previous year as a small decline in revenue in the first quarter was offset by a similar increase in the second quarter. The readymix concrete operation, a small non-core business and the Group's only involvement in this market, was sold in June 2015.

Retail Segment (7% of Group Revenue)

Revenue fell by 9.3 per cent to £72.2 million (2014: £79.6 million) but was ahead by 2.0 per cent in constant currency. Revenue in the like-for-like business was up by 1.8 per cent. Operating profit increased to £0.6 million from £0.4 million, almost doubling to €0.9 million from €0.5 million in constant currency.

The **Woodie's** business in Ireland benefited from modest revenue growth as the emerging recovery in consumer spending gathered pace and began to slowly extend into the DIY market in the half year. The improvement in spending was supported by rising employment, moderate wage increases and small reductions in tax. Sentiment continued to improve but the majority of consumers have not seen a marked improvement in their personal finances and remain cautious about spending as they continue to pay down mortgage debt.

Trading over the peak trading periods of Easter and public holiday weekends suffered from a reduced footfall and demand for outdoor seasonal products, which account for a high proportion of first half revenue, was lower. The gross margin was slightly down due to a higher revenue mix of lower margin products and targeted promotions related to refreshment of some product ranges. A strong focus was maintained on operating cost efficiencies and cash generation.

Management continued to implement operational changes and improve the store format to make it easier for customers to shop and better position the business to drive revenue growth as the recovery starts to take hold in the DIY, Home and Garden sector of the retail market.

The seven store **In-House** business increased the supply of kitchens sold through the Selco and Woodie's branch networks and was returned to profitability in the half year.

Manufacturing Segment (2% of Group Revenue)

Revenue increased by 14.2 per cent to £26.3 million (2014: £23.0 million) and operating profit increased by 44.7 per cent to £4.5 million (2014: £3.1 million). The segment operating profit margin increased 360bps to 16.9 per cent from 13.3 per cent.

CPI Mortars ("CPIM"), the market leader in the supply of silo based mortar under the EuroMix brand from eight manufacturing plants in England and one in Scotland, increased revenue to £24.8 million (2014: £21.4 million). The business continued to benefit from a positive trading environment and strong underlying demand for new houses which was supported by economic growth, higher employment, growth in real earnings and very low mortgage interest rates. Revenue growth eased as expected to 16.0 per cent from 40.3 per cent in the first half of 2014 and 27.9 per cent in the second half as the rate of growth in house building moderated. Housing registrations, a lead indicator of housing starts, increased by 14 per cent in the half year. Strong volume growth, pricing improvements, efficiency gains and tight control of costs contributed to the improvement in profit.

In July 2015, CPIM acquired Carlton Manufacturing Limited, a leading manufacturer of concrete and mortar products that are produced in waterproof and recyclable packaging with a mainly residential RMI orientated product focus. This acquisition provides CPIM with additional bagging capacity from a modern facility located in Rotherham and broadens its portfolio of packaged products, customer base and end-use markets.

MFP, the PVC drainage and roofline products business based in Dublin, reported a strong recovery in profitability driven by increased demand for drainage products in a recovering new housing market, a higher volume of roofline products supplied through the Selco branch network and lower raw materials input costs.

Financial Review

The Group increased revenue, profitability and cash flow in the half year. Growth of 5.3 per cent in average daily like-for-like revenue added £51.9 million to Group revenue and increased operating profit before property profit by £3.4 million. Acquisitions, new branches, implants and branch consolidations contributed revenue of £43.4 million and operating profit of £3.0 million. The weakening of the euro against sterling reduced Group revenue by £26.9 million and operating profit by £0.3 million on translation of the results of the Irish and Belgian businesses into sterling.

The Group continued to be very cash generative and used its cash flow from operations of £73.2 million to fund a significant programme of capital expenditure and acquisitions and to increase dividends and reduce net debt.

Return on capital employed increased by 220bps to 12.4 per cent from 10.2 per cent and capital turn to 2.2 times from 2.0 times.

Property

As part of its focus on improving returns on capital employed, the Group continues to manage its significant property portfolio with a view to realising value and releasing cash that can be deployed elsewhere in the business to generate higher returns. Property profits of £6.1 million were realised in the half year from the disposal of four UK properties for £7.5 million. This includes a profit of £5.6 million from the sale of a small branch property in Stoke Newington, London. The disposal proceeds of £6.2 million are receivable before the year end and reflect a significant alternative use uplift in the value of this property.

Pensions

The pre-tax deficit on the defined benefit pension scheme declined by £14.2 million to £18.8 million (31 December 2014: £33.0 million). This was mainly due to a fall in the present value of scheme liabilities as the rates used to discount liabilities increased in line with increases in corporate bond yields. The discount rate increased by 25 basis points to 3.85 per cent for UK scheme liabilities and to 2.35 per cent for Irish scheme liabilities. Higher than expected returns of 4.1 per cent in the half year on pension scheme assets and experience gains also contributed to the decline in the deficit.

Net Finance Income and Expense

The net finance charge for the half year was £3.3 million (2014: £4.6 million). The net bank and loan note interest charge declined to £2.9 million from £4.4 million due to the refinancing of debt completed in May 2014, declining money market interest rates and lower net debt. The net finance expense that relates to the defined benefit pension scheme obligations increased to £0.4 million (2014: £0.1 million).

Taxation

The headline rate of corporation tax of 18.8 per cent is lower than the underlying tax rate of 21 per cent as a previously unrecognised deferred tax asset has been utilised against a UK taxable profit arising on the disposal of properties during the half year to 30 June 2015. The underlying tax rate of 21 per cent reflects the mix of profits between the UK, Ireland and Belgium and the disallowance of a tax deduction for certain overheads charged in arriving at profit including depreciation on buildings. The tax rate is mainly influenced by the UK rate of corporation tax which is where the majority of the Group profits are earned. The UK corporation tax rate fell to 20 per cent with effect from 1 April 2015. The UK rate will be reduced further in two stages to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020.

Capital Expenditure and Acquisitions

Expenditure of £42.9 million (2014: £47.2 million) was incurred in the half-year on capital expenditure and acquisitions. An investment of £23.7 million (net of cash acquired) was made acquiring the TG Lynes merchanting business in London and capital expenditure amounted to £19.2 million including a spend of £10.8 million on development projects that provide a platform for the future profitable growth of the Group. Development expenditure included the new Selco stores in Redhill and Coventry and the rollout of Electricbase and Hirebase implants in Buildbase branches. Upgrading legacy IT systems in Buildbase involved an outlay of £3.5 million in the half year as part of a multi-year programme of investment.

Proceeds of £4.6 million were received from the disposal of assets and businesses.

Net Debt and Financing

Net debt declined by £24.2 million to £51.1 million (31 December 2014: £75.3 million) its lowest level since 1998. Strong cash flow from operations was driven by increased profitability and tight management of working capital. The translation of euro denominated debt into sterling reduced net debt by £15.6 million due the euro exchange rate weakening against sterling.

The gearing ratio declined to 5 per cent from 8 per cent at the end of 2014, the lowest level for almost two decades as the Group continued to target investment grade credit metrics while also having the capacity to take advantage of development opportunities that are in line with its strategic priorities and which meet its investment criteria. Underlying EBITDA interest cover for the half-year was 26.8 times (2014: 15.2 times) and net debt at 30 June 2015 was equivalent to 0.33 times EBITDA for the year to 30 June 2015 (30 June 2014: 0.79 times).

The Group's last refinancing occurred in May 2014 when it entered into five year revolving credit facilities for £460 million with its five principal relationship banks. These bilateral multi-currency facilities mature in May 2019 and provide good funding headroom and flexibility in addition to cashflow from operations. The amount of these facilities that was undrawn and at the disposal of the Group at 30 June 2015 was £193.0 million.

Shareholders' Equity

Shareholders' equity increased to £934.8 million at 30 June 2015 (31 December 2014: £902.3 million). Equity was increased by profit after tax of £47.0 million and by £10.6 million due to a reduction in the defined benefit pension scheme deficit after tax. Payment of a second interim dividend for 2014 reduced equity by £16.3 million. There was a currency loss of £11.1 million on conversion of euro assets, net of related euro debt, into sterling at the period end exchange rate of 71.14p (31 December 2014: 77.89p).

Risks and Uncertainties

The Transparency (Directive 2004/109/EC) Regulations 2007 requires disclosure of the principal risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year and cause actual results to differ materially from expected and historical results.

Revenue and profitability in the builders merchanting markets in the UK, Ireland and Belgium and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including credit conditions, consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions.

In addition to the macro-economic risks referred to above, other risks faced by the Group are set out on pages 48 to 50 of the 2014 Annual Report. These are competition in the merchanting, DIY and mortar markets, employee and management engagement, retention and skills, IT systems and infrastructure, health and safety, acquisition and integration of new businesses, defined benefit pension schemes, tax, the availability and cost of debt finance and credit risk relating to customers.

Grafton Group plc

Group Condensed Income Statement
For the six months ended 30 June 2015

Continuing activities	Notes	2015 (Unaudited) £'000	2014 (Unaudited) £'000
Revenue	2	**1,083,705**	1,015,291
Operating costs	3	**(1,022,540)**	(964,708)
Operating profit		**61,165**	50,583
Finance expense	4	**(3,941)**	(5,421)
Finance income	4	**672**	774
Profit before tax		**57,896**	45,936
Income tax charge	16	**(10,884)**	(10,088)
Profit after tax for the financial period		**47,012**	35,848
Profit attributable to:			
Owners of the Company		**46,937**	35,784
Non-controlling interests	8	**75**	64
Profit after tax for the financial period		**47,012**	35,848
Earnings per ordinary share - basic	5	**20.2p**	15.4p
Earnings per ordinary share - diluted	5	**20.0p**	15.3p

Grafton Group plc

Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2015

	Notes	**Six months to 30 June 2015 (Unaudited) £'000**	Six months to 30 June 2014 (Unaudited) £'000
Profit after tax for the financial period		**47,012**	35,848
Other comprehensive income			
Items that may be reclassified subsequently to the income statement			
Currency translation effects			
- on foreign currency net investments		**(10,013)**	(4,205)
- on foreign currency borrowings designated as net investment hedges		**(1,103)**	(1,306)
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges		**60**	(205)
- Net change in fair value of cash flow hedges transferred from equity		**21**	111
Deferred tax on cash flow hedges		**(11)**	(4)
		(11,046)	(5,609)
Items that will not be reclassified to the income statement			
Actuarial gain/(loss) on Group defined benefit pension schemes	**13**	**12,560**	(13,650)
Deferred tax on Group defined benefit pension schemes	**13**	**(1,936)**	2,075
		10,624	(11,575)
Total other comprehensive income		**(422)**	(17,184)
Total comprehensive income for the financial period		**46,590**	18,664
Total comprehensive income attributable to:			
Owners of the Company		**46,515**	18,600
Non-controlling interests	**8**	**75**	64
Total comprehensive income for the financial period		**46,590**	18,664

Grafton Group plc

Group Condensed Balance Sheet as at 30 June 2015

	Notes	**30 June 2015 (Unaudited) £'000**	30 June 2014 (Unaudited) £'000	31 Dec 2014 (Audited) £'000
ASSETS				
Non-current assets				
Goodwill	**15**	**474,231**	481,366	480,157
Intangible assets	**9**	**9,103**	4,946	5,757
Property, plant and equipment	**9**	**415,550**	418,768	423,411
Investment properties	**9**	**19,120**	20,840	20,473
Deferred tax assets	**16**	**18,807**	19,593	23,452
Retirement benefit assets	**13**	**671**	-	125
Derivative financial instruments	**11**	**37**	-	-
Other financial assets		**122**	124	123
Total non-current assets		**937,641**	945,637	953,498
Current assets				
Properties held for sale	**9**	**9,041**	11,101	9,581
Inventories	**10**	**275,201**	262,533	249,906
Trade and other receivables	**10**	**366,802**	343,622	302,871
Derivative financial instruments	**11**	**-**	636	1,095
Cash and cash equivalents	**11**	**190,043**	162,462	182,360
Total current assets		**841,087**	780,354	745,813
Total assets		**1,778,728**	1,725,991	1,699,311
EQUITY				
Equity share capital		**8,348**	8,308	8,309
Share premium account		**206,641**	206,570	206,597
Capital redemption reserve		**621**	621	621
Revaluation reserve		**13,747**	13,892	13,822
Shares to be issued reserve		**7,661**	4,278	7,834
Cash flow hedge reserve		**34**	-	(36)
Foreign currency translation reserve		**46,889**	60,835	58,005
Retained earnings		**654,721**	587,134	610,998
Treasury shares held		**(3,897)**	(3,897)	(3,897)
Equity attributable to owners of the Company		**934,765**	877,741	902,253
Non-controlling interests	**8**	**4,102**	4,115	4,027
Total equity		**938,867**	881,856	906,280
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	**11**	**239,664**	250,071	244,305
Provisions		**18,739**	20,684	20,855
Retirement benefit obligations	**13**	**19,423**	19,616	33,085
Derivative financial instruments	**11**	**-**	-	44
Deferred tax liabilities	**16**	**29,222**	31,208	30,758
Total non-current liabilities		**307,048**	321,579	329,047
Current liabilities				
Interest-bearing loans and borrowings	**11**	**1,478**	14,094	14,422
Trade and other payables	**10**	**507,047**	482,098	425,696
Current income tax liabilities	**16**	**18,427**	16,429	17,334
Provisions		**5,861**	9,935	6,532
Total current liabilities		**532,813**	522,556	463,984
Total liabilities		**839,861**	844,135	793,031
Total equity and liabilities		**1,778,728**	1,725,991	1,699,311

Grafton Group plc
Group Condensed Cash Flow Statement
For the six months ended 30 June 2015

	Notes	**Six Months to 30 June 2015 (Unaudited) £'000**	Six Months to 30 June 2014 (Unaudited) £'000
Profit before taxation		**57,896**	45,936
Finance income		**(672)**	(774)
Finance expense		**3,941**	5,421
Operating profit		**61,165**	50,583
Depreciation	**9**	**15,928**	15,900
Amortisation of intangible assets	**9**	**160**	-
Share-based payments charge		**2,196**	1,607
Non-cash movement in operating provisions		**569**	2,249
Claims paid on insurance and other provisions		**(1,400)**	(3,542)
Profit on sale of property, plant and equipment		**(6,489)**	(1,891)
Profit on sale of group businesses		**(404)**	-
Contributions to pension schemes in excess of IAS 19 charge	**13**	**(736)**	(1,057)
Decrease in working capital	**10**	**2,219**	24,258
Cash generated from operations		**73,208**	88,107
Interest paid		**(2,854)**	(5,464)
Income taxes paid		**(7,963)**	(449)
Cash flows from operating activities		**62,391**	82,194
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**2,282**	3,192
Proceeds from sale of group businesses (net)		**2,280**	-
Interest received		**493**	378
		5,055	3,570
Outflows			
Acquisition of subsidiary undertakings and businesses	**14**	**(25,496)**	(23,525)
Net cash acquired with subsidiary undertakings	**14**	**1,790**	78
Investment in intangible asset – computer software	**9**	**(3,506)**	(4,946)
Purchase of property, plant and equipment	**9**	**(15,716)**	(18,796)
		(42,928)	(47,189)
Cash flows from investing activities		**(37,873)**	(43,619)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**83**	22
Proceeds from borrowings		**17,846**	57,970
		17,929	57,992
Outflows			
Repayment of borrowings		**(3,430)**	(58,834)
Dividends paid	**6**	**(16,282)**	(12,784)
Movement on finance lease liabilities		**(489)**	(313)
Redemption of loan notes payable net of derivatives		**(11,649)**	(11,540)
		(31,850)	(83,471)
Cash flows from financing activities		**(13,921)**	(25,479)
Net increase in cash and cash equivalents		**10,597**	13,096
Cash and cash equivalents at 1 January		**182,360**	151,099
Effect of exchange rate fluctuations on cash held		**(2,914)**	(1,733)
Cash and cash equivalents at the end of the period		**190,043**	162,462
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**190,043**	162,462

Grafton Group plc
Group Condensed Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash Flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total £'000	Non-Controlling Interests £'000	Total equity £'000
Six months to 30 June 2015 (Unaudited)												
At 1 January 2015	8,309	206,597	621	13,822	7,834	(36)	58,005	610,998	(3,897)	902,253	4,027	906,280
Profit after tax for the financial period	-	-	-	-	-	-	-	46,937	-	46,937	75	47,012
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	10,624	-	10,624	-	10,624
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	70	-	-	-	70	-	70
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(10,013)	-	-	(10,013)	-	(10,013)
Currency translation effect on foreign currency borrowings designated as net investment hedges	-	-	-	-	-	-	(1,103)	-	-	(1,103)	-	(1,103)
Total other comprehensive income	-	-	-	-	-	70	(11,116)	10,624	-	(422)	-	(422)
Total comprehensive income	-	-	-	-	-	70	(11,116)	57,561	-	46,515	75	46,590
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(16,282)	-	(16,282)	-	(16,282)
Issue of Grafton Units (net of issue expenses)	39	44	-	-	-	-	-	-	-	83	-	83
Share based payments charge	-	-	-	-	2,196	-	-	-	-	2,196	-	2,196
Transfer from shares to be issued reserve	-	-	-	-	(2,369)	-	-	2,369	-	-	-	-
Transfer from revaluation reserve	-	-	-	(75)	-	-	-	75	-	-	-	-
	39	44	-	(75)	(173)	-	-	(13,838)	-	(14,003)	-	(14,003)
At 30 June 2015	8,348	206,641	621	13,747	7,661	34	46,889	654,721	(3,897)	934,765	4,102	938,867
Six months to 30 June 2014 (Unaudited)												
At 1 January 2014	8,302	206,554	621	13,978	2,875	98	66,346	575,419	(3,897)	870,296	4,051	874,347
Profit after tax for the financial period	-	-	-	-	-	-	-	35,784	-	35,784	64	35,848
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	(11,575)	-	(11,575)	-	(11,575)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(98)	-	-	-	(98)	-	(98)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(4,205)	-	-	(4,205)	-	(4,205)
Currency translation effect on foreign currency borrowings designated as net investment hedges	-	-	-	-	-	-	(1,306)	-	-	(1,306)	-	(1,306)
Total other comprehensive income	-	-	-	-	-	(98)	(5,511)	(11,575)	-	(17,184)	-	(17,184)
Total comprehensive income	-	-	-	-	-	(98)	(5,511)	24,209	-	18,600	64	18,664
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(12,784)	-	(12,784)	-	(12,784)
Issue of Grafton Units (net of issue expenses)	6	16	-	-	-	-	-	-	-	22	-	22
Share based payments charge	-	-	-	-	1,607	-	-	-	-	1,607	-	1,607
Transfer from shares to be issued reserve	-	-	-	-	(204)	-	-	204	-	-	-	-
Transfer from revaluation reserve	-	-	-	(86)	-	-	-	86	-	-	-	-
	6	16	-	(86)	1,403	-	-	(12,494)	-	(11,155)	-	(11,155)
At 30 June 2014	8,308	206,570	621	13,892	4,278	-	60,835	587,134	(3,897)	877,741	4,115	881,856

Grafton Group plc

Group Condensed Statement of Changes in Equity (Continued)

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash Flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total £'000	Non-Controlling Interests £'000	Total equity £'000
Year to 31 December 2014 (Audited)												
At 1 January 2014	8,302	206,554	621	13,978	2,875	98	66,346	575,419	(3,897)	870,296	4,051	874,347
Profit after tax for the financial year	-	-	-	-	-	-	-	80,046	-	80,046	(24)	80,022
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	(23,326)	-	(23,326)	-	(23,326)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(134)	-	-	-	(134)	-	(134)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(6,707)	-	-	(6,707)	-	(6,707)
Currency translation effect on foreign currency borrowings designated as net investment hedges	-	-	-	-	-	-	(1,634)	-	-	(1,634)	-	(1,634)
Total other comprehensive income	-	-	-	-	-	(134)	(8,341)	(23,326)	-	(31,801)	-	(31,801)
Total comprehensive income	-	-	-	-	-	(134)	(8,341)	56,720	-	48,245	(24)	48,221
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(21,501)	-	(21,501)	-	(21,501)
Issue of Grafton Units (net of issue expenses)	7	43	-	-	-	-	-	-	-	50	-	50
Share based payments charge	-	-	-	-	3,679	-	-	-	-	3,679	-	3,679
Deferred tax on share based payments	-	-	-	-	1,484	-	-	-	-	1,484		1,484
Transfer from shares to be issued reserve	-	-	-	-	(204)	-	-	204	-	-	-	-
Transfer from revaluation reserve	-	-	-	(156)	-	-	-	156	-	-	-	-
	7	43	-	(156)	4,959	-	-	(21,141)	-	(16,288)	-	(16,288)
At 31 December 2014	8,309	206,597	621	13,822	7,834	(36)	58,005	610,998	(3,897)	902,253	4,027	906,280

1. General Information

The condensed consolidated half year financial statements for the six months ended 30 June 2015 are unaudited but have been reviewed by the auditor whose report is set out on pages 30 and 31.

The financial information presented in this report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. These condensed consolidated half year financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements in respect of the year ended 31 December 2014 that are available on the Company's website www.graftonplc.com.

The financial information included in this report in relation to the year ended 31 December 2014 does not comprise statutory annual financial statements within the meaning of section 295 of the Companies Act 2014. Those 2014 annual financial statements have been filed with the Registrar of Companies and the audit report thereon was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The condensed consolidated half year financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information and disclosures necessary for a complete set of IFRS compliant financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2014.

The accounting policies applied by the Group in the condensed consolidated half year financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2014.

The euro sterling exchange rates for the six months ended 30 June 2015 and 2014 and for the year ended 31 December 2014 are set out below:

	30 June 2015	30 June 2014	31 December 2014
€/£ exchange rate – average rates	**0.7323**	0.8213	0.8061
€/£ exchange rate – closing rates	**0.7114**	0.8015	0.7789

The financial statements are reported in GBP (Sterling) which is the functional currency of the majority of the Group's business.

The following standards and interpretations are effective for the Group from 1 January 2015 but do not have a material effect on the results or financial position of the Group.

Annual Improvements to IFRSs 2011-2013 Cycle (Effective 1 January 2015)

- IFRS 1 First-time adoption of IFRS: meaning of 'effective IFRSs'.

Basis of Preparation, Accounting Policies and Estimates (Continued)

(a) Basis of Preparation and Accounting Policies (continued)

- IFRS 3 Business Combinations: scope exceptions for joint ventures.

  This amendment to IFRS 3 excludes the formation of all types of joint arrangements from its scope and clarifies that the scope exclusion is the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- IFRS 13 Fair Value Measurement: scope of paragraph 52 (portfolio exception).

  This amendment to IFRS 13 confirms that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the 'portfolio exception') includes all contracts within the scope of, and accounted for, in accordance with IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.

- IAS 40 Investment Property: clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

  The amendment to IAS 40 confirms that an entity that acquires investment property has to determine whether the acquisition meets both the definition of a business combination as well as investment property.

  This amendment has not had a significant effect on the half year financial statements.

The adoption of other new standards, interpretations and amendments that become effective for the year ended 31 December 2015 did not have any significant impact on the half year financial statements.

(b) Estimates

The preparation of half-yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated half year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2014.

2. Segmental Analysis

The amount of revenue and operating profit under the Group's operating segments of Merchanting, Retailing and Manufacturing is as follows:

	Six months to 30 June 2015 (Unaudited) £'000	Six months to 30 June 2014 (Unaudited) £'000
Revenue		
Merchanting	**985,178**	912,661
Retailing	**72,199**	79,578
Manufacturing	**30,964**	27,825
Less: Inter-segment revenue - manufacturing	**(4,636)**	(4,773)
	1,083,705	1,015,291
Segment operating profit		
Merchanting	**61,281**	51,430
Retailing	**640**	396
Manufacturing	**4,446**	3,072
	66,367	54,898
Reconciliation to consolidated operating profit		
Central activities	**(5,202)**	(4,315)
Operating profit	**61,165**	50,583
Finance expense	**(3,941)**	(5,421)
Finance income	**672**	774
Profit before tax	**57,896**	45,936
Income tax	**(10,884)**	(10,088)
Profit after tax for the financial period	**47,012**	35,848

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2015 (Unaudited) £'000	Six months to 30 June 2014 (Unaudited) £'000
Revenue		
United Kingdom	**841,494**	766,455
Ireland	**197,792**	202,595
Belgium	**44,419**	46,241
	1,083,705	1,015,291

Operating segment assets are analysed below:

	30 June 2015 (Unaudited) £'000	30 June 2014 (Unaudited) £'000
Segment assets		
Merchanting	**1,470,851**	1,444,563
Retailing	**60,142**	57,647
Manufacturing	**38,055**	40,966
	1,569,048	1,543,176
Unallocated assets		
Deferred tax assets	**18,807**	19,593
Retirement benefit assets	**671**	-
Other financial assets	**122**	124
Derivative financial instruments	**37**	636
Cash and cash equivalents	**190,043**	162,462
Total assets	**1,778,728**	1,725,991

2. Segmental Analysis (continued)

Operating segment liabilities are analysed below:

	30 June 2015 (Unaudited) £'000	30 June 2014 (Unaudited) £'000
Segment liabilities		
Merchanting	**475,584**	456,668
Retailing	**42,153**	43,921
Manufacturing	**13,910**	12,128
	531,647	512,717
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**241,142**	264,165
Retirement benefit obligations	**19,423**	19,616
Deferred tax liabilities	**29,222**	31,208
Current tax liabilities	**18,427**	16,429
Total liabilities	**839,861**	844,135

3. Operating Costs

Included within operating costs in 2015 was a property profit of £6.1m (2014: £1.6m) relating to the disposal of four UK properties.

4. Finance Expense and Finance Income

	Six months to 30 June 2015 (Unaudited) £'000		Six months to 30 June 2014 (Unaudited) £'000	
Finance expense				
Interest on bank loans and overdrafts	**(3,285)**	*	(4,598)	*
Interest on loan notes	**(95)**	*	(145)	*
Net change in fair value of cash flow hedges transferred from equity	**(21)**		(111)	
Interest on finance leases	**(105)**		(125)	
Net finance cost on pension scheme obligations	**(435)**		(107)	
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	**-**		(335)	
	(3,941)		(5,421)	
Finance income				
Foreign exchange gain	**154**		396	
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	**25**		-	
Interest income on bank deposits	**493**	*	378	*
	672		774	
Net finance expense	**(3,269)**		(4,647)	

* Net bank/loan note interest of £2.9 million (June 2014: £4.4 million).

5. Earnings per Share

The computation of basic, diluted and underlying earnings per share is set out below.

	Half Year 30 June 2015 (Unaudited) £'000	Half Year 30 June 2014 (Unaudited) £'000
Numerator for basic and diluted earnings per share:		
Profit after tax for the financial period	**47,012**	35,848
Non-controlling interest	**(75)**	(64)
Numerator for basic and diluted earnings per share	**46,937**	35,784
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and diluted earnings per share:		
Weighted average number of Grafton Units in issue	**232,879,283**	232,460,074
Effect of potential dilutive Grafton Units	**2,318,205**	1,089,249
Denominator for diluted earnings per share	**235,197,488**	233,549,323
Earnings per share (pence)		
- Basic	**20.2p**	15.4p
- Diluted	**20.0p**	15.3p

6. Dividends

The payment in 2015 of a second interim dividend for 2014 of 7.00 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £16.3 million.

An interim dividend for 2015 of 4.50 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 11 September 2015 (the 'Record Date'). The cash consideration will be paid on 9 October 2015. A liability in respect of the interim dividend has not been recognised at 30 June 2015, as there was no present obligation to pay the dividend at the half-year.

7. Exchange Rates

The results and cash flows of subsidiaries with euro functional currencies have been translated into sterling using the average exchange rate for the half-year. The balance sheets of subsidiaries with euro functional currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date.

The average sterling/euro rate of exchange for the six months ended 30 June 2015 was Stg73.23p (six months to 30 June 2014: Stg82.13p). The sterling/euro exchange rate at 30 June 2015 was Stg71.14p (30 June 2014: Stg80.15p and 31 December 2014: Stg77.89p).

8. Non-Controlling Interests

The Group holds a 65 per cent controlling interest in YouBuild NV (formerly BMC Groep NV, a Belgian entity) that is accounted for as a subsidiary undertaking with a non-controlling interest.

9. Property, Plant and Equipment, Intangible Assets, Properties Held for Sale and Investment Properties

	Property, plant and equipment £'000	Intangible assets £'000	Properties held for sale £'000	Investment properties £'000
Net Book Value				
As at 1 January 2015	**423,411**	**5,757**	**9,581**	**20,473**
Additions	**15,716**	**3,506**	**-**	**-**
Acquisitions (note 14)	**5,166**	**-**	**-**	**-**
Depreciation/amortisation	**(15,928)**	**(160)**	**-**	**-**
Disposals	**(1,551)**	**-**	**(482)**	**-**
Disposal of group businesses	**(718)**	**-**	**-**	**-**
Transfer to properties held for sale	**-**	**-**	**124**	**(124)**
Currency translation adjustment	**(10,546)**	**-**	**(182)**	**(1,229)**
As at 30 June 2015	**415,550**	**9,103**	**9,041**	**19,120**

There was no material change in the fair value of investment properties or properties held for sale following an internal review undertaken by the Group Property Director. The determination of fair value and the valuation techniques used, including significant unobservable inputs, at 30 June 2015, are set out in Note 12 to the Group's 2014 Annual Report.

In the half year there was one property transferred from investment properties to properties held for sale reducing the total number of investment properties to 21 at 30 June 2015 of which 5 are located in the United Kingdom and 16 in Ireland.

One property held for sale was sold and as noted above one property was transferred from investment properties leaving the number of properties held for sale unchanged at 23 properties of which 22 are located in the United Kingdom and one in Ireland.

10. Movement in Working Capital

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2015	**249,906**	**302,871**	**(425,696)**	**127,081**
Currency translation adjustment	(6,232)	(5,603)	11,293	(542)
Interest accrual and other movements	-	6,779	(164)	6,615
Disposal of group businesses	(240)	(2,287)	1,482	(1,045)
Acquisitions through business combinations (note 14)	2,995	5,166	(3,095)	5,066
Movement in 2015	28,772	59,876	(90,867)	(2,219)
At 30 June 2015	**275,201**	**366,802**	**(507,047)**	**134,956**

11. Interest-Bearing Loans, Borrowings and Net debt

	30 June 2015 £'000	30 June 2014 £'000	31 Dec 2014 £'000
Non-current liabilities			
Bank loans	237,010	246,701	241,208
Loan notes	-	-	-
Finance leases	2,654	3,370	3,097
Total non-current interest bearing loans and borrowings	**239,664**	250,071	244,305
Current liabilities			
Bank loans and overdrafts	1,120	1,218	1,190
Loan notes	-	12,382	12,861
Finance leases	358	494	371
Total current interest bearing loans and borrowings	**1,478**	14,094	14,422
Derivatives-non current			
Included in non-current assets	**(37)**	-	-
Included in non-current liabilities	**-**	-	44
Derivatives-current			
Included in current assets	**-**	(636)	(1,095)
Included in current liabilities	**-**	-	-
Total derivatives	**(37)**	(636)	(1,051)
Cash and cash equivalents	**(190,043)**	(162,462)	(182,360)
Net debt	**51,062**	101,067	75,316

The following table shows the fair value of financial assets and liabilities including their level in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	30 June 2015 Total Level 2 £'000	31 Dec 2014 Total Level 2 £'000
Assets measured at fair value		
At fair value through profit or loss		
Cross currency interest rate swaps	**-**	(1,095)
(Assets)/liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps	**(37)**	44
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**238,130**	242,398
Finance leases	**3,012**	3,468
2005 unsecured senior US dollar loan notes	**-**	12,714
	241,142	258,580

11. Interest-Bearing Loans, Borrowings and Net debt (continued)

Financial assets and liabilities recognised at amortised cost

Except as detailed above, it is considered that the carrying amounts of financial assets and liabilities including trade payables, trade receivables, net debt and deferred consideration which are recognised at amortised cost in the condensed consolidated half year financial statements approximate to their fair values.

Financial assets and liabilities carried at fair value

Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined in Note 20 to the Group's 2014 Annual Report together with the method for determining the fair value of financial assets and liabilities. All of the Group's financial assets and liabilities which are carried at fair value are classified as Level 2 in the fair value hierarchy. There have been no transfers between levels in the current period.

Investment properties and properties held for sale

Investment properties of £19.1 million which are separately classified in non-current assets are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions recently completed or on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields and consultations with external agents who have knowledge of local property markets.

The carrying value of properties held for sale of £9.0 million are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. 8 properties are included at a fair value of £3.2 million and have been valued on the basis set out in the foregoing paragraph.

12. Reconciliation of Net Cash Flow to Movement in Net Debt

	30 June 2015 £'000	30 June 2014 £'000
Net increase in cash and cash equivalents	**10,597**	**13,096**
Net movement in derivative financial instruments	**196**	**238**
Loans disposed with group businesses	**181**	**-**
Cash-flow from movement in debt and lease financing	**(2,278)**	**12,717**
Change in net debt resulting from cash flows	**8,696**	**26,051**
Currency translation adjustment	**15,558**	**6,619**
Movement in net debt in the period	**24,254**	**32,670**
Net debt at 1 January	**(75,316)**	**(133,737)**
Net debt at end of the period	**(51,062)**	**(101,067)**
Gearing	**5%**	**12%**

13. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current reporting period and for the prior year were as follows:

	Irish Schemes		UK Schemes	
	At 30 June 2015	At 31 Dec 2014	**At 30 June 2015**	At 31 Dec 2014
	%	%	**%**	%
Rate of increase in salaries	**3.00%***	2.50%*	**0.00%****	0.00%**
Rate of increase of pensions in payment	**-**	-	**3.50%**	3.30%
Discount rate	**2.35%**	2.10%	**3.85%**	3.60%
Inflation	**1.70%**	1.30%	**3.50%*****	3.30%***

*3% applies from 2 January 2019 (31 December 2014: 2.50% from 2 January 2019)

** Pensionable salaries are not adjusted for inflation

*** The inflation assumption shown for the UK is based on the Retail Price Index (RPI)

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

	Assets		Liabilities		Net asset/(deficit)	
	Half year 30 June 2015	Year to 31 Dec 2014	**Half year 30 June 2015**	Year to 31 Dec 2014	**Half year 30 June 2015**	Year to 31 Dec 2014
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**189,203**	180,663	**(222,163)**	(187,785)	**(32,960)**	(7,122)
Acquired in year	**-**	223	**-**	(490)	**-**	(267)
Interest income on plan assets	**2,719**	7,503	**-**	-	**2,719**	7,503
Contributions by employer	**1,850**	3,023	**-**	-	**1,850**	3,023
Contributions by members	**546**	1,199	**(546)**	(1,199)	**-**	-
Benefit payments	**(2,950)**	(5,549)	**2,950**	5,549	**-**	-
Current service cost	**-**	-	**(1,243)**	(1,703)	**(1,243)**	(1,703)
Past service credit	**-**	-	**129**	542	**129**	542
Interest cost on scheme liabilities	**-**	-	**(3,154)**	(7,747)	**(3,154)**	(7,747)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**1,941**	(86)	**1,941**	(86)
-financial assumptions	**-**	-	**4,433**	(38,859)	**4,433**	(38,859)
-demographic assumptions	**-**	-	**1,046**	3,271	**1,046**	3,271
Return on plan assets excluding interest income	**5,140**	7,620	**-**	-	**5,140**	7,620
Currency translation adjustment	**(7,379)**	(5,479)	**8,726**	6,344	**1,347**	865
At 30 June	**189,129**	189,203	**(207,881)**	(222,163)	**(18,752)**	(32,960)
Related deferred tax asset (net)					**3,175**	5,345
Net pension liability					**(15,577)**	(27,615)

13. Retirement Benefits (continued)

The net pension scheme deficit of £18,752,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £19,423,000 of which £9,216,000 is related to the Euro schemes, £10,207,000 to a UK scheme and retirement benefit assets (non-current assets) of £671,000 of which £195,000 is related to a Euro scheme and £476,000 to a UK scheme.

The 2014 net pension scheme deficit of £32,960,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £33,085,000 of which £18,113,000 is related to the Euro schemes and £14,972,000 to one UK scheme and retirement benefit assets (non-current assets) of £125,000 relating to a second UK scheme.

14. Acquisitions of Subsidiary Undertakings and Businesses

In the six months to 30 June 2015 the Group completed the acquisition of the entire share capital of TG Lynes Limited, a leading distributor of mechanical engineering products for use in commercial and public sector buildings, apartments and industrial processes. TG Lynes has a long established and strong position in the mechanical services market in London and the South East region and trades from a purpose built distribution facility in Enfield, North London. This acquisition was completed on 2 March 2015.

Details of the acquisitions made in 2014 are disclosed in the Group's 2014 Annual Report.

The provisional fair value of assets and liabilities acquired are set out below:

	2015 **£'000**
Property, plant and equipment	**5,166**
Inventories	**2,995**
Trade and other receivables	**5,166**
Trade and other payables	**(3,095)**
Corporation tax	**(342)**
Deferred tax (liability)	**(56)**
Cash acquired	**1,790**
Net assets acquired	**11,624**
Goodwill	**13,872**
Consideration	**25,496**
Satisfied by:	
Cash paid	**25,496**
Net cash outflow	**25,496**

The fair value of the net assets acquired have been determined on a provisional basis.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group.

Acquisitions completed in 2015 contributed revenue of £7.7 million and operating profit of £1.0 million for the periods between the dates of acquisition and 30 June 2015. If the acquisitions had occurred on 1 January 2015 they would have contributed revenue of £11.5 million and operating profit of £1.6 million in the half-year.

15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. There were no indicators of impairment during the half year. The Board is satisfied that the carrying value of goodwill has not been impaired.

	Goodwill £'000
As at 1 January 2015	**480,157**
Arising on acquisitions (note 14)	**13,872**
Disposal of group businesses	**(624)**
Currency translation adjustment	**(19,174)**
As at 30 June 2015	**474,231**

16. Taxation

The headline rate of corporation tax of 18.8 per cent is lower than the underlying tax rate of 21 per cent as a previously unrecognised deferred tax asset has been utilised against a UK taxable profit arising on the disposal of properties during the half year to 30 June 2015. The underlying tax rate of 21 per cent (2014: 22 per cent) for the half year ended 30 June 2015 is based on an estimate of the weighted average expected underlying tax rate for the full financial year. This underlying expected tax rate reflects estimates of cash tax payable and a non-cash charge due to the unwinding of deferred tax assets. The underlying expected tax rate of 21 per cent reflects the mix of profits between the UK, Ireland and Belgium and the disallowance of a tax deduction for certain overheads charged in arriving at profit including depreciation on buildings. The UK corporation tax rate reduced from 21 per cent to 20 per cent from 1 April 2015. The UK rate will be reduced further in two stages to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020 although this has not been substantially enacted at 30 June 2015.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

Accounting estimates and judgements

Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Group is party to transactions for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences could materially impact the income tax and deferred tax provisions and assets in the period in which the determination was made.

Deferred tax

At 30 June 2015, there were unrecognised deferred tax assets in relation to capital losses of £2.2 million (31 December 2014: £3.4 million), trading losses of £1.0 million (31 December 2014: £1.1 million) and deductible temporary differences of £4.5 million (31 December 2014: £4.5 million). Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future with reasonable certainty. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

17. Related Party Transactions

There have been no related party transactions or changes in the nature and scale of related party transactions from those described in the 2014 Annual Report that materially affected the financial position or the performance of the Group during the half-year to 30 June 2015. Key management personnel were paid dividends in respect of their shareholding in the Group, as described on page 68 of the 2014 Annual Report.

18. Grafton Group plc Long Term Incentive Plan (LTIP)

LTIP awards were made over 707,588 Grafton Units on 17 April 2015. The fair value of the awards of £5.2 million will be charged to the income statement over the vesting period of three years. The 2014 Annual Report discloses details of the LTIP scheme.

19. Issue of Shares

During the year 1,052,430 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2012 grant. A further 19,934 Grafton Units were issued under the Group's Savings Related Share Option Scheme (SAYE) to eligible UK employees.

20. Events after the Balance Sheet Date

There have been no material events subsequent to 30 June 2015 that would require adjustment to or disclosure in this report except that the Group completed the acquisition of Carlton Manufacturing Limited ("Carlton") on 17 July 2015 and Parkes Services Limited ("Parkes Services") on 10 August 2015. A cash consideration of £1.4 million was paid on completion for the purchase of the entire share capital of Carlton and debt of £1.9 million was assumed with the business giving a total consideration of £3.3 million. Carlton reported revenue of £3.3 million and an operating loss of £0.5 million for the year ended 31 December 2014. A cash consideration of £4.6 million was paid on completion of the purchase of the share capital of Parkes Services which included cash of circa £1.6 million. Parkes Services reported revenue of £4.6 million and an adjusted operating profit of £0.6 million for the year ended 31 March 2015. Deferred consideration of up to £0.5 million is payable subject to the business achieving certain profit targets for the year to 31 March 2016.

21. Board Approval

These condensed consolidated half year financial statements were approved by the Board of Grafton Group plc on 26 August 2015**.**

Directors' Responsibility Statement in respect of the half-yearly financial report for the six months ended 30 June 2015

Each of the directors listed in the 2014 Annual Report confirms their responsibility for preparing the half-yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 as amended, the Disclosure and Transparency Rules of the UK Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the EU. We confirm that, to the best of each person's knowledge and belief:

a) The Group Condensed Half Year Financial Statements comprising the Group Condensed Income Statement, Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and related notes have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Disclosure and Transparency Rules of the UK Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the EU.

b) The half-yearly financial report includes a fair review of the information required by:

- *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors of Grafton Group plc are listed on the Grafton Group plc website: www.graftonplc.com.

On behalf of the Board:

Gavin Slark	David Arnold
Chief Executive Officer	Chief Financial Officer

Independent Review Report to Grafton Group plc

Introduction

We have been engaged by Grafton Group plc ('the company') to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 as amended ("the TD Regulations") and the Transparency Rules of the UK Financial Conduct Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Transparency Rules of the UK Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with the Financial Reporting Council's International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

Cliona Mullen
For and on behalf of KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2

26 August 2015